

Testimony of Paul Palmby
Executive Vice President and
Chief Operating Officer
Seneca Foods Corporation
Before the
Committee on Agriculture
U.S. House of Representatives
September 13, 2006

Good morning, Mr. Chairman and Members of the Committee. I am Paul Palmby, Executive Vice President and Chief Operating Officer of Seneca Foods Corporation.

Seneca Foods is the largest fruit and vegetable processor in the country with 22 plants located in New York, Wisconsin, Minnesota, Illinois, Idaho, Washington, and California. We are vertically integrated with large vegetable seed production capability in Washington, a 10,000 acre farming operation in Wisconsin, and 2 state of the art can manufacturing facilities in Wisconsin and New York. We employ approximately 3,200 full time and 9,200 seasonal workers with an annual payroll of over \$260,000,000 and contract for raw product with approximately 3,000 growers on over 300,000 acres with nearly \$150,000,000 being paid to those producers in the small rural communities where many of our plants are located.

I appreciate the opportunity to testify today on behalf of the Canned, Frozen Food and Grower Coalition (CFFGC). CFFGC is a coalition of food and vegetable farmers, processors, trade associations, and others from across the Midwest, which seeks flexibility for farmers to remove some of their acres from program participation in order to diversify by producing fruits and vegetables for processing.

Mr. Chairman, late in the process of writing the 2002 Farm Bill, soybeans were added to the program crops, and a restriction on growing fruits and vegetables on program crop acreage was by default extended to soybean acres. While that decision was made in a very purposeful way, several of its consequences were not clearly anticipated. As a result, farmers in the Midwest are denied reasonable access to land for the production of fruits and vegetables for processing. Of course, the principal vegetables at issue are tomatoes, sweet corn, green beans, peas, pumpkins, lima beans, cabbage and red beets -- all grown under contract for processing.

I would like to emphasize that this problem is not a *processor* problem so much as it is a problem for *agriculture* in the Midwest. Previous witnesses on behalf of our coalition have been producers, because the most direct and substantial damage caused by this problem is borne by producers. For example, Glenn Abbett previously testified before this Committee about the barriers to continue his family farm's traditional fruit and vegetable production because the grower history was in his father's name and because Glenn has generally been unable to rent land for vegetable production. The Senate Agriculture Committee recently heard from Charlotte Ousley, a widow, who was

informed by the Farm Service Agency upon the death of her husband in a farming accident, that she and her children would not be allowed to continue fruit and vegetable production under her late husband's grower history.

Each year as growers across the Midwest are forced out of production or choose to stop growing fruit and vegetables for processing, the supply of fruits and vegetables for processors is reduced. With the current restrictions on growing fruits and vegetables, new and otherwise willing producers are prohibited from replacing those who are no longer producing. In addition, the current restrictions prohibit current growers from increasing their acreage in production. The accumulating loss of growers poses a long-term threat to the processing industry, creating a substantial opportunity for foreign producers of processed fruits and vegetables. In fact, foreign processors already are making inroads.

Seneca Foods is currently the largest exporter of canned vegetables with nearly 10% of our revenues being generated from sales to over 60 countries. Recent and dramatic growth in primarily canned sweet corn in Thailand, China and Brazil are direct threats to our export business. Add to that increasing imports from those countries, as well as Canada, and it is clear that declining exports are not our only concern. While imports of corn have flattened over the last year, as a result of huge domestic crops driving down pricing, an expanding import threat is equally as great.

Having traveled in the last 24 months to both Thailand and Brazil, I can report first hand that their quality is improving, their productive capacity is expanding, and their efficiency is increasing. There are now over 30 processors in Thailand, where enhanced agricultural practices and focus on new varieties by major seed companies are resulting in rapid improvements in yield and quality. There is simply no question as to whether they will match our domestic quality and consistency; it is merely a question of when. Any factors limiting U.S. competitiveness, such as the restrictions on fruit and vegetable production, will contribute to lost exports, allow growing imports, and, ultimately, capacity adjustments and job losses.

Mr. Chairman, I would like to explain why the 2002 Farm Bill fruit and vegetable restrictions have had such an adverse effect and why Farm Flex is a reasonable correction.

Since 1996, our farm laws have generally prohibited the production of fruits and vegetables on *base* acreage. However, this was not a significant problem for Midwestern fruit and vegetable production until the 2002 Farm Bill made soybeans a program crop. Including soybeans as a program crop resulted in practically all of the quality farm land in Midwestern states acquiring a program base. Since the Farm Bill generally prohibits planting fruits and vegetables for processing on program acres, the availability of farm ground for fruit and vegetable production in the Midwest has been dramatically reduced. For example, in Illinois, a state with almost 22 million acres of crop land, 8.5 million acres were added to the program base by the 2002 Farm Bill, leaving just 300,000 acres outside of Farm Bill restrictions. In some counties in southern Minnesota, as much as 98% of the tillable acreage is program acres. Thus, a dramatic change occurred in the availability of land for production of fruits and vegetables. So, the farm program restrictions on fruit and vegetable production for the first time came into sharp focus, and two clear problems became apparent.

First, restrictions on fruit and vegetable production were simply unworkable. Allowances for fruit and vegetable production due to farm history did not provide for reasonable crop rotation, and restrictions on the use of producer history by family members has proven to be not only unreasonable, but heartless. Second, fear of base acreage loss has made it extremely difficult for producers to rent quality crop land for fruit and vegetable production. In the Midwest, most family farms rely on rented acres to grow a substantial percentage of their crops. In the 2002 Farm Bill recalculation of base acreage, fruit and vegetable production caused a loss of base acreage. As a result, landlords in the Midwest now generally refuse to allow fruit and vegetable production on their land, out of concern that a future recalculation of base acreage may result in a further loss of base.

In combination, these restrictions not only reduced the availability of land for fruit and vegetable production but significantly undercut the ability to rotate crops, which is essential for integrated pest management purposes and to preserve crop quality and disease control in susceptible fruit and vegetable crops .

Fortunately, Mr. Chairman, an easy answer, without adverse effect, is available – Farm Flex. Farm Flex, as described in Mr. Pence’s legislation H.R. 2045, would permit production of fruits and vegetables for processing on program acres provided that an acre-for-acre reduction in program participation occurs. In addition, Farm Flex would clarify that Congress intends that, for any future recalculation, base acreage would treat fruits and vegetables grown for processing on base acreage the same as production of a program crop.

This two step approach would have several benefits. It would:

- Enable farmers to diversify their operations by producing a higher value crop on land that otherwise would be locked into the farm program;
- Make it easier for farmers to stop producing fruits and vegetables for processing if they choose. Under the current scheme, farmers who do not have base on vegetable ground must either grow crops outside of the program or be forced, for economic reasons, to continue in fruit and vegetable production; and
- Reduce government expenditures by allowing farmers to forego government payments on program acreage that is in production of fruit and vegetables for processing.

So, Farm Flex would allow farmers greater flexibility, reinforce *family* farm policies, remove an encumbrance on the international competitiveness of the U.S. processed vegetable industry, and even reduce government expenditures.

Permit me to take a few minutes to address the arguments that have been advanced in opposition to Farm Flex.

It is asserted that Farm Flex would allow for subsidized competition for unsubsidized U.S. fruit and vegetable producers. That is wrong. Farm Flex specifically provides that fruit and vegetable production may only occur on acres that opt out of the farm program. By electing to produce fruit or

vegetables for processing under Farm Flex, the producer would elect to STOP receiving subsidy on acres in fruit or vegetable production. That is why the Congressional Budget Office says that Farm Flex saves taxpayer dollars, and why it would not allow subsidy for fruit or vegetable production.

Mr. Chairman, this Committee also has heard complaints that Farm Flex could threaten fragile fresh produce markets because production on Farm Flex acres may illegally move into fresh markets with devastating effects on fresh produce markets. That is absurd. First, nearly all of the crops grown for processing are of a different variety than used in fresh markets and are not suitable for fresh markets. Second, such sales into fresh markets would become illegal and easily detected when the produce is presented for sale at a fresh produce market. Third, production in the Midwest consistently lags behind the premium early market prices of the fresh industry because Midwest harvest dates are simply later and shorter in duration than harvest dates in traditional fresh production areas.

Finally, and most notably, there is absolutely no history of such problems occurring in the past. Prior to the enactment of the 2002 Farm Bill, there was abundant land available for production of fruits and vegetables without restrictions. Had there been such an opportunity for Midwest-grown fresh produce to take over the fresh market, it certainly would have occurred prior to 2002 when land was readily available for that to occur legally. Since there is no history of such practices, it is silly to think they would suddenly occur since moving Farm Flex production to fresh markets would be illegal and subject to substantial penalties. Farm Flex simply allows producers some of the flexibility to produce fruit and vegetables for processing that they had prior to the 2002 Farm Bill changes. Under Farm Flex, there would be far less potential for Midwest production of fresh fruit and vegetable production to move into fresh markets than was present prior to the 2002 Farm Bill. After all, Farm Flex only permits production of fruit and vegetables *for processing*.

Mr. Chairman, if the current restrictions on fruit and vegetable production remain in place, the continuing decline in the availability of quality acreage close to processing facilities will continue to erode the competitiveness of the U.S. processed fruit and vegetable industry with its foreign competitors. Without your help, it will only be a matter of time before American canned corn is replaced by corn from Thailand, Brazil, and China.

Mr. Chairman and Members of the Committee, I appreciate your consideration of our comments and would be pleased to answer any questions you might have.

Paul Palmby
418 East Conde Street
Janesville, Wisconsin 53546
Seneca Foods Corporation
608-743-8320

Mr. Palmby is currently the Executive Vice President and Chief Operating Officer for Seneca Foods Corporation. In that role he is responsible for all Agricultural, Manufacturing and Sales activities for over 110,000 million cases of canned and frozen fruits and vegetables generating over 1.1 billion dollars in annual revenues.

A graduate of Iowa State University with a degree in Agriculture and the product of a southern Minnesota dairy and row crop family farm, his roots are in Agriculture. He began his professional career advising and contracting vegetable acreage with southern Minnesota farmers. He also held positions with direct producer responsibility in southern Wisconsin as well as in Washington and Idaho.

Since 2002 he has provided leadership to the Canned, Frozen Food and Grower Coalition (CFFGC). CFFGC is a coalition of food and vegetable farmers, processors, trade associations, and others from across the Midwest which seeks flexibility for farmers to remove some of their acres from program participation in order to diversity and produce fruits and vegetables for processing..

Mr. Palmby serves on the Board of Directors of the Midwest Food Processors Association, the Wisconsin FFA Foundation and Chairs the Wisconsin FFA Sponsors Board. He is also currently serving a second two year appointment by the Secretary of Agriculture to the Department's Fruit and Vegetable Industry Advisory Committee.

Committee on Agriculture
U.S. House of Representatives
Required Witness Disclosure Form

House Rules* require nongovernmental witnesses to disclose the amount and source of Federal grants received since October 1, 2004.

Name:

PAUL PALMBY

Address:

847 CAMBRIDGE DR. JANESVILLE WI.

Telephone:

608 - 743 - 8320

Organization you represent (if any):

SENECA FOODS CORPORATION
AND THE CANNED, FROZEN FOOD AND GROWER COALITION

1. Please list any federal grants or contracts (including subgrants and subcontracts) you have received since October 1, 2004, as well as the source and the amount of each grant or contract. House Rules do NOT require disclosure of federal payments to individuals, such as Social Security or Medicare benefits, farm program payments, or assistance to agricultural producers:

Source:

NONE

Amount:

Source:

Amount:

2. If you are appearing on behalf of an organization, please list any federal grants or contracts (including subgrants and subcontracts) the organization has received since October 1, 2004, as well as the source and the amount of each grant or contract:

Source:

USDA COMMODITY PURCHASES Amount: \$88,659,000
(CANNED AND FROZEN FRUITS
AND VEGETABLES)

Source:

Amount:

Please check here if this form is NOT applicable to you: ☐

Signature:

Paul Palmbly

* Rule XI, clause 2(g)(4) of the U.S. House of Representatives provides: Each committee shall, to the greatest extent practicable, require witnesses who appear before it to submit in advance written statements of proposed testimony and to limit their initial presentations to the committee to brief summaries thereof. In the case of a witness appearing in a nongovernmental capacity, a written statement of proposed testimony shall include a curriculum vitae and a disclosure of the amount and source (by agency and program) of each Federal grant (or subgrant thereof) or contract (or subcontract thereof) received during the current fiscal year or either of the two previous fiscal years by the witness or by any entity represented by the witness.

PLEASE ATTACH DISCLOSURE FORM TO EACH COPY OF TESTIMONY.

USDA



Farm Service Agency

Madison County Farm Service Agency

1917 University Boulevard, Anderson, IN 46012-5103

Phone: (765) 644-4249 TDD#: (317) 290-3343 Fax: (765) 640-9029

November 7, 2003

Charlotte Ousley
2742 W 1025 N
Alexandria, IN 46001-8403

Dear Ms. Ousley,

We regret to inform you that since the passing of your late husband, Herb Ousley, all of the producer history that he carried toward being able to plant fruits and vegetables on contracted base acres has been lost.

Producer history is calculated using planted fruits and vegetables during crop years 1991-1995 or 1998-2001. Each individual that had a share in the fruit and vegetable crop receives credit for their share of producer history (1-DCP Amend. 3, par. 477 D). As an example, Bill and Tim are tomato growers that farm on 50% - 50% shares. In 1998, 1999, 2000, and 2001, 200 acres of tomatoes were planted and split 50% - 50% between Bill and Tim. In 2001, the same 200 acres were planted; however, Tim had 25 acres of tomatoes that he did not share crop with Bill. In order to calculate the producer history you would do the following:

Crop Year	Acres Planted to Tomatoes
1998	200
1999	200
2000	200
2001	200
1998 through 2001 annual average plantings	200 (800 / 4)
Bill's share (producer history)	100 (200 * 50%)
Tim's share (producer history)	100 (200 * 50%)

Unfortunately, only producers that were recorded as having a share of the crop on the certification forms (FSA-578's) can receive producer history for the planted crop. Since only Herb Ousley was listed (as receiving 100% share), none of the producer history can be carried forward to any member of your family that wishes to continue with the farming operation. If you have any questions regarding this matter, or if I can be of further assistance, please feel free to contact our office during the normal business hours of 8:00 a.m. until 4:30 p.m., Monday through Friday.

Sincerely,

Erin Hreskowsky
County Executive Director
Madison County Farm Service Agency

The U. S. Department of Agriculture (USDA) regulations prohibit discrimination in all its programs and activities on the basis of race, color, national origin, sex, religion, age, disability, political beliefs, sexual orientation, or marital or familial status. (Not all prohibited bases apply to all programs.) Persons with disabilities who require alternative means for communication of program information (Braille, large print, audiotape, etc.) should contact USDA's TARGET Center at (202) 720-2600. To file a complaint of discrimination, write USDA, Director, Office of Civil Rights, Room 326-W, Whitten Bldg., 1400 Independence Ave. SW, Washington, D.C. 20259-9410 or call (202) 720-5964 (voice and TDD). USDA is an equal opportunity provider and employer.

The U. S. Department of Agriculture (USDA) regulations prohibit discrimination in all its programs and activities on the basis of race, color, national origin, sex, religion, age, disability, political beliefs, sexual orientation, or marital or familial status. (Not all prohibited bases apply to all programs.) Persons with disabilities who require alternative means for communication of program information (Braille, large print, audiotape, etc.) should contact USDA's TARGET Center at (202) 720-2600. To file a complaint of discrimination, write USDA, Director, Office of Civil Rights, Room 326-W, Whitten Bldg., 1400 Independence Ave. SW, Washington, D.C. 20259-9410 or call (202) 720-5964 (voice and TDD). USDA is an equal opportunity provider and employer.

WHEREAS, the Midwest Association of State Directors of Agriculture strives to encourage diverse production opportunities for growers and processors in our respective states; and,

WHEREAS, the inclusion of soybeans as program acres, along with the continuation of the 1996 prohibition on growing fruits and vegetables on program acres, in the 2002 Farm Bill has resulted in acknowledged "unintentional consequences" for processed fruit and vegetable growers and processors by limiting diversification, reducing rotational opportunities, causing inefficiency, and raising federal expenses; and,

WHEREAS, the FAV prohibition falls almost entirely on FAV growers and processors in the Midwest because of the traditional crop production practices and the inability to utilize the double-cropping exemption to grow FAV that is available in most other areas; and,

WHEREAS, S. 1038 and H.R. 2045, the Farming Flexibility Act of 2005, will permit production of FAV for processing on base acreage, provided that an acre for acre reduction in program payments is made; will clarify that future recalculation of base acreage would treat vegetables grown for processing on base acreage to be the same as production of a program crop; save taxpayer money; and not impact fresh market vegetable grower interests; and,

WHEREAS, processing FAVs, using varieties not acceptable for most fresh market applications, and fresh market FAVs are inherently different enterprises, and processing FAVs are contracted for defined market needs, and, furthermore, the Farming Flexibility Act of 2005 actually imposes new barriers to processing FAVs entering fresh market channels; and,

WHEREAS, the Midwest Association of State Directors of Agriculture voted on July 26, 2005, to endorse and support the passage in Congress of S. 1038 and H.R. 2045; and, therefore,

BE IT RESOLVED: the Midwest Association of State Directors of Agriculture respectfully requests NASDA to endorse and support the Farming Flexibility Act of 2005 (S. 1038 and H.R. 2005) in order to correct the "unintended consequences" impacting Midwest FAV growers and processors as a result of the 2002 Farm Bill.

July 26, 2005